

REPORT OF THE AUDITOR-GENERAL TO THE NORTHERN CAPE PROVINCIAL LEGISLATURE AND THE COUNCIL ON UBUNTU LOCAL MUNICIPALITY

REPORT ON THE FINANCIAL STATEMENTS

Introduction

1. I have audited the financial statements of the Ubuntu Local Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2013, the statement of financial performance, statement of changes in net assets, the statement of comparison of budget and actual amounts and the cash flow statement for the year then ended, and the notes, comprising a summary of significant accounting policies and other explanatory information.

Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2012 (Act No.05 of 2012) (DoRA) and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor-general's responsibility

3. My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA), the *General Notice* issued in terms thereof and International Standards on Auditing. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
4. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

6. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Ubuntu Local Municipality as at 30 June 2013, and its financial performance and cash flows for the year then ended in accordance with the SA Standards of GRAP and the requirements of the MFMA and DoRA.

Emphasis of matters

7. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Significant uncertainties

8. With reference to note 51 to the financial statements, the municipality is the defendant in the claims and litigations totalling R332 410. This amount excludes three active landfill sites which are not licensed as required by the National Environmental Management: Waste Act, 2008 (Act No. 59 of 2008). The municipality has taken steps to obtain the required licences.
9. Except for the landfill sites, the municipality is opposing the claims, as it believes the claims to be defensible in court. The ultimate outcome of the matters cannot presently be determined and no provision for any liability that may result has been made in the financial statements.

Restatement of corresponding figures

10. As disclosed in note 37 to the financial statements, the corresponding figures for the balance sheet of 30 June 2012 have been restated as a result of errors discovered during 30 June 2013 in the financial statement of the Ubuntu Local Municipality and for the year ended 30 June 2012.

Material impairments

11. As disclosed in note 31 to the financial statements, material impairments to the amount of R8 322 367 (2012: R4 800 847) were incurred as a result of a write-off of irrecoverable trade debtor.

Material losses

12. As disclosed in note 43.4 to the financial statements, material losses to the amount of R13 164 918 (2012: R12 705 369) and were incurred as a result bulk electricity and water purchases.

Going concern

13. Note 53 to the financial statements indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern. The following conditions, along with other matters as set forth, indicate the existence of a material uncertainty:
 - Debts amounting to R31 880 911 (2012: R19 976 509) had been outstanding for more than 90 days.
 - The municipality did not settle all trade creditors within 30 days, as required by section 65(2) (e) of the MFMA.
14. Note 39 to the financial statements indicates that the Ubuntu Local Municipality incurred a net loss of R 1 345 811.00 during the year ended 30 June 2013 and, as of that date, the Municipality's current liabilities exceeded its total assets by R16 581 856. These conditions, along with other matters as set forth in the note 39, indicate the existence of a material uncertainty that may cast significant doubt on the municipality's ability to operate as a going concern.

Additional matter

15. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited supplementary schedules

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

In accordance with the PAA and the *General Notice* issued in terms thereof, I report the following findings relevant to performance against predetermined objectives, compliance with laws and regulations and internal control, but not for the purpose of expressing an opinion.

Predetermined objectives

17. The annual performance was not presented for audit and consequently our findings below are limited to the procedures performed on the strategic planning and performance management documents.
18. The information was assessed to determine whether performance indicators and targets are measurable (i.e. well defined, verifiable, specific, measurable and time bound) and relevant as required by the *National Treasury Framework for managing programme performance information*.
19. The material findings are as follows:

Usefulness of information

20. The *Framework for managing programme performance information* requires that performance targets be specific in clearly identifying the nature and required level of performance. A total of 100% of the targets were not specific in clearly identifying the nature and the required level of performance ... This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.
21. The *Framework for managing programme performance information* requires that performance targets be measurable. The required performance could not be measured for a total of 100% of the targets. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.
22. The *Framework for managing programme performance information* requires that the time period or deadline for delivery be specified. A total of 100% of the targets were not time bound in specifying a time period or deadline for delivery. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.
23. The *Framework for managing programme performance information* requires that indicators should have clear unambiguous data definitions so that data is collected consistently and is easy to understand and use. A total of 100% of the indicators were not well defined in that clear, unambiguous data definitions were not available to allow for data to be collected consistently. This was due to the fact that management was

aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.

24. The *Framework for managing programme performance information* requires that it must be possible to validate the processes and systems that produce the indicator. A total of 100% of the indicators were not verifiable in that valid processes and systems that produce the information on actual performance did not exist. This was due to the fact that management was aware of the requirements of the FMPPI but chose not to apply the principles contained in the FMPPI.
25. The *Framework for managing programme performance information* requires that the indicator should relate logically and directly to an aspect of the institution's mandate, the realisation of strategic goals and objectives. A total of 100% of the indicators did not relate logically and directly to an aspect of the institution's mandate and realisation of strategic goals and objectives as per the five-year integrated development plan. This was due to the lack of development and implementation of proper performance planning and management practices to provide for the development of performance indicators and targets included in the integrated development plan.

Compliance with laws and regulations

26. I performed procedures to obtain evidence that the municipality has complied with applicable laws and regulations regarding financial matters, financial management and other related matters. My findings on material non-compliance with specific matters in key applicable laws and regulations, as set out in the *General Notice* issued in terms of the PAA, are as follows:

Strategic planning and performance management

27. The annual performance report for the financial year under review was not prepared, as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.
28. The municipality did not have and maintain effective, efficient and transparent systems of financial and risk management and internal controls as required by section 62(1)(c)(i) of the Municipal Finance Management Act.
29. The municipality did not establish a performance management system, as required by section 38(a) of the Municipal Systems Act.
30. The municipality did not set measurable performance targets for the financial year with regard to each of the development priorities and objectives and key performance indicators set out in the IDP, as required by section 41(1)(b) of the Municipal Systems Act and the Municipal planning and performance management regulation 12(1) and 12(2)(e).
31. The accounting officer of the municipality did not by 25 January assess the performance of the municipality during the first half of the financial year, as required by section 72(1)(a)(ii) of the Municipal Finance Management Act .
32. A performance audit committee was not in place and the audit committee was not used to fulfil the performance audit committee function, as required by Municipal planning and performance management regulation 14(2)(a).
33. The internal audit did not audit the results of performance measurements, as required by section 45(1)(a) of the Municipal Systems Act and Municipal planning and

performance management regulation 14(1)(a).

34. The internal audit unit did not assess the functionality of the performance management system, as required by Municipal planning and performance management regulation 14(1)(b)(i).
35. The internal audit unit did not assess the extent to which the performance measurements were reliable in measuring the performance of the municipality on key and general performance indicators, as required by Municipal planning and performance management regulation 14(1)(b)(iii).
36. The internal audit unit did not audit the performance measurements on a continuous basis and submitted quarterly reports to the performance audit committee, as required by Municipal planning and performance management regulation 14(1)(c).

Budget

37. Expenditure was incurred in excess of the limits of the amounts provided for in the votes of the approved budget, in contravention of section 15 of the Municipal Finance Management Act.
38. Unforeseeable and unavoidable expenditure incurred by the municipality was not appropriated in an adjustment budget, as required by section 29(2) (d) of the Municipal Finance Management Act.
39. Expenditure was approved as unforeseen and unavoidable which was considered by the council but not included in the approved annual in contravention of Municipal Budget and Reporting Regulation 71(2)
40. Sufficient appropriate audit evidence could not be obtained that monthly budget statements were submitted to the mayor and relevant provincial treasury, as required by section 71(1) of the Municipal Finance Management Act.

Financial statements, performance and annual reports

41. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of non-current assets, current assets liabilities, revenue, expenditure, and disclosure items identified by the auditors in the submitted financial statement were subsequently corrected and resulting in the financial statements receiving an unqualified audit opinion.
42. The 2012 annual report was not tabled in the municipal council within seven months after the end of the financial year, as required by section 127(2) of the Municipal Finance Management Act. The mayor did not promptly submit a written explanation to the council setting out the reasons for the delay.
43. The council's oversight report on the 2012 annual report was not made public within seven days of its adoption, as required by section 129(3) of the Municipal Finance Management Act.
44. A written explanation was not submitted to council setting out the reasons for the delay in the tabling of the 2012 annual report in the council, as required by section 127(3) and 133(1)(a) of the Municipal Finance Management Act.
45. The 2012 annual report was not made public immediately after the annual report was

tabled in the council, as required by section 127(5)(a) of the Municipal Finance Management Act.

46. Oversight report, containing comments on the annual report, was not adopted by council within two months from the date on which the 2012 annual report was tabled, as required by section 129(1) of the Municipal Finance Management Act.

Audit committees

47. An audit committee was not in place, as required by section 166(1) of the Municipal Finance Management Act. This resulted in all functions that are required to be performed by the audit committee not being fulfilled.

Internal audit

48. The internal audit unit did not advise the accounting officer and report to the audit committee on matters relating to compliance with the Municipal Finance Management Act, the Division of Revenue Act and other applicable legislation, as required by section 165(2)(b)(vii) of the Municipal Finance Management Act.

Procurement and contract management

49. Goods and services with a transaction value of below R200 000 were procured without obtaining the required price quotations, as required by Supply Chain Management Regulation 17(a) and (c).
50. Quotations were accepted from prospective providers who are not registered on the list of accredited prospective providers and do not meet the listing requirements prescribed by the SCM policy in contravention of SCM regulation 16(b) and 17(b).
51. Sufficient appropriate audit evidence could not be obtained that bids were evaluated by bid evaluation committees which were composed of officials from the departments requiring the goods or services and at least one SCM practitioner of the municipality as required by SCM regulation 28(2).
52. Sufficient appropriate audit evidence could not be obtained that the preference point system was applied in all procurement of goods and services above R30 000 as required by section 2(a) of the Preferential Procurement Policy Framework Act and SCM regulation 28(1)(a)
53. Quotations were awarded to bidders that did not score the highest points in the evaluation process, as required by section 2(1)(f) of Preferential Procurement Policy Framework Act.
54. Quotations were awarded to bidders who did not submit a declaration on whether they are employed by the state or connected to any person employed by the state, as required by SCM regulation 13(c).

Expenditure management

55. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the Municipal Finance Management Act.
56. An effective system of expenditure control, including procedures for the approval of transactions, was not in place, as required by section 65(2) (a) of the Municipal Finance Management Act.

57. Reasonable steps were not taken to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1) (d) of the Municipal Finance Management Act.

Conditional grants

58. The municipality did not submit MFMA implementation plans to National Treasury to address weaknesses in financial management, as required by the Division of Revenue Grant Framework, Gazette No.35399.
59. Quarterly reports were not submitted to the National Treasury on municipal performance for the quarter against the targets stipulated in the infrastructure performance framework, within 30 days after the end of each quarter, as required by section 11(2)(c)(ii) of the Division of Revenue Act..
60. The municipality did not evaluate its performance in respect of programmes funded by the Municipal Infrastructure Grant within two months after the end of the financial year, as required by section 12(5) of the Division of Revenue Act.

Consequences management

61. Unauthorised, Irregular and fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, in accordance with the requirements of section 32(2) of the Municipal Finance Management Act.

Internal control

62. I considered internal control relevant to my audit of the financial statements, annual performance report and compliance with laws and regulations. The matters reported below under the fundamentals of internal control are limited to the significant deficiencies that resulted in the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

Leadership

63. The leadership did not take appropriate action with regard to a lack of controls at the finance and SCM directorates, resulting in non-compliance with applicable legislation and inadequate budget control measures. This, in turn, resulted in irregular, fruitless and wasteful as well as unauthorised expenditure being incurred.
64. The leadership did not regularly monitor management's compliance with laws, regulations and internally designed policies and procedures. As a result, significant non-compliance issues were noted.

Financial and performance management

65. The municipality did not have individuals who sufficiently understand the financial reporting framework and performance and financial management requirements. This resulted in the municipality engaging a consultant to prepare the financial statements. The underlying accounting records of the municipality did not facilitate the preparation of the financial statements to comply with the accounting framework.
66. Controls were not designed to ensure that the transactions had occurred, were authorised, and were completely and accurately processed. Documentation supporting amounts disclosed in the financial statements was not always available.

67. Management did not document and approve internal policies and procedures to address the process of collecting, recording, processing, monitoring, and reporting on, performance information. Consequently, performance management systems, processes and procedures had not been designed and implemented.

Governance

68. The municipality did not respond to the assessed risks by determining a risk strategy and action plan to manage identified risks. Consequently, internal controls were not selected and developed to prevent, detect and correct material misstatements in financial reporting and reporting on predetermined objectives.
69. The financial statements were subject to material corrections resulting from the audit, which are attributable to the lack of risk assessment performed, weaknesses in the design and implementation of internal control in respect of financial management, and financial reporting and weaknesses in the information systems.
70. The accounting officer did not prioritise the establishment of a fully functioning performance audit committee and audit committee and, therefore, the functions were not established and functional during the financial year. This also resulted in the committees not being able to fulfil all their responsibilities.

Auditor-General
Kimberley

30 November 2013



AUDITOR - GENERAL
SOUTH AFRICA

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